

**SOUTHWEST BEHAVIORAL HEALTH CENTER**

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**BASIC FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION  
WITH INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED JUNE 30, 2005**

**SOUTHWEST BEHAVIORAL HEALTH CENTER**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**  
**FOR THE YEAR ENDED JUNE 30, 2005**

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## INDEPENDENT AUDITORS' REPORT

TO THE AUTHORITY BOARD  
SOUTHWEST BEHAVIORAL HEALTH CENTER  
ST. GEORGE, UTAH

We have audited the accompanying financial statements of the governmental activities and the major fund of Southwest Behavioral Health Center (the Center), as of and for the year ended June 30, 2005, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Southwest Behavioral Health Center as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2005, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

90 EAST 200 NORTH  
ST. GEORGE, UT 84770  
FAX: (435) 673-6166  
(435) 673-6167

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Center's basic financial statements. The combining financial statements listed in the table of contents are presented for purposes of additional analysis and is not a required part of the basic financial statements of the Center. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Center. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Hafen, Buckner, Everett & Graff PC*

HAFEN, BUCKNER, EVERETT & GRAFF, PC  
November 30, 2005

## **Southwest Behavioral Health Center**

### **Management's Discussion and Analysis**

This section of the Basic Financial Statement presents management's discussion and analysis of Southwest Behavioral Health Center's financial performance during the year ending June 30, 2005. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the Independent Auditor's report.

#### **History and Background of Southwest Behavioral Health Center**

Southwest Behavioral Health Center was created in January 1986 to provide mental health and substance abuse treatment and prevention services throughout southwestern Utah, including the counties of Beaver, Garfield, Kane, Iron and Washington. The Center was established by the five counties under the state's Inter-local Cooperative Agreement Act, creating a separate, legal, political entity. The Center has gone through several name changes over the years to better reflect its mission. Originally known as Southwest Utah Mental Health/Alcohol & Drug Center, the name was shortened on 1996 to Southwest Center. In 2004, the Board authorized a name change to Southwest Behavioral Health Center.

Southwest Behavioral Health Center employs nearly 250 part and full-time workers, providing critically needed services to nearly 4000 residents of southwestern Utah. Prevention services impact nearly 10,000 children each year through school assemblies and other programs, such as, Red Ribbon Week.

#### **Financial Highlights**

- The Center's assets exceeded liabilities by \$10.1m at the close of the most recent fiscal year up from \$8.5m in fiscal year 2004. This represents an 18.8 percent increase over prior year.
- Unrestricted Net Assets, as of June 30, 2005, were \$3.2m, as compared to \$4m in 2004.
- Cash, receivables and deposits amounted to 58.7 percent of the Center's total assets (including capital assets) of \$18.9m. This is up 6.7 percent from the prior year.
- Fiscal year 2005 revenues increased by \$592,000 over FY 2004, with the largest single revenue source continuing to be Federal Medicaid at \$6m or 48.2 percent of total revenues.
- Fiscal year 2005 operating expenditures (excluding capital outlay) decreased by \$292,000 compared to the prior year. Ninety-eight percent of this decrease was due to decreases in personnel-related costs. Personnel-related costs amounted to 66.9 percent of total expenditures.
- Unreserved Fund Balance, or the amount of available resources that has not been earmarked for a specific purpose or legally restricted amounted to \$4m as of June 30, 2005. This reflects an increase of \$1.2m over the previous year.

#### **Overview of the Financial Statements**

This discussion is intended to serve as an introduction to the Center's basic financial statements. These basic financial statements comprise two primary components: 1) financial statements, and 2) notes to the financial statements. Southwest Behavioral Health Center is a special-purpose governmental entity engaged only in governmental activities, so the fund financial statement is the only financial statement provided. The report also includes other supplementary information.

## **Financial Statements**

The financial statements are designed to provide readers with a broad overview of the Center's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the assets and liabilities of the Center, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Center is improving or deteriorating.

The Statement of Activities presents information showing how the net assets of the Center changed during the most recent fiscal year. All changes on net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal year periods (e.g., uncollected revenues and earned, but unused, vacation leave). This entity-wide statement delineates Center activities that are intended to recover all or a significant portion of their costs through user fees and charges. The Center's primary activities are mental health treatment and substance abuse treatment & prevention services, and associated administrative costs.

## **Notes to the Financial Statement**

The notes provide additional information that is essential to fully understanding the Center's financial statements. Please review them carefully; there is a wealth of information contained in this section.

## **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the Center's functional expenses and a schedule of federal awards.

## **Financial Analysis**

### **Net Assets**

As previously noted, net assets may serve over time as a useful indicator of an entity's financial position. In the case of Southwest Behavioral Health Center, assets exceeded liabilities by \$10.1m at the close of fiscal year 2005. This represents an increase over the prior year of \$1.6m, demonstrating that the Center's financial position continues to be stable and sound.

By far, the largest portion of the Center's net assets reflects Southwest Behavioral Health Center's investment in capital assets (e.g., land, building, vehicles and equipment), less any outstanding debt (Certificates of Participation payable) used to acquire those assets (see detail in the Capital Asset table). The Center uses these capital assets to provide services to clients; consequently, these assets are not available for future spending. Although the Center's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, as the capital assets themselves cannot be used to liquidate these liabilities.

**SUMMARY of Net Assets**

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Current and Other Assets	\$11,080,073	\$8,581,132	\$2,498,941
Capital Assets	<u>\$7,775,577</u>	<u>\$7,865,341</u>	<u>(\$89,764)</u>
Total Assets	\$18,855,650	\$16,446,473	\$ 2,409,177
Current and Other Liabilities	\$3,254,340	\$1,844,252	\$1,410,088
Long-term Debt and Other Long-term Liabilities	<u>\$5,528,465</u>	<u>\$6,138,425</u>	<u>(\$609,960)</u>
Total Liabilities	\$8,782,805	\$7,982,677	\$800,128
Net Assets:			
Invested in Capital Assets, net of related debt	\$2,695,087	\$2,509,451	\$185,636
Restricted	\$4,152,734	\$1,906,994	\$2,245,740
Unrestricted	<u>\$3,225,024</u>	<u>\$4,047,351</u>	<u>(\$822,327)</u>
Total Net Assets	<u>\$10,072,845</u>	<u>\$8,463,796</u>	<u>\$1,609,049</u>

**Governmental Activities**

For fiscal year 2005, expenditures related to Mental Health services totaled \$6m compared to \$6.1m the previous year, a decrease of 2.2 percent. Expenditures related to Substance Abuse services increased by 26.3 percent to \$2.3m and expenditures for Other Services increased by 8.1 percent to \$648,364. Funds expended for Administration of entity-wide activities decreased 15.9 percent from the previous year to \$2m in 2005.

**General Fund Budgetary Highlights**

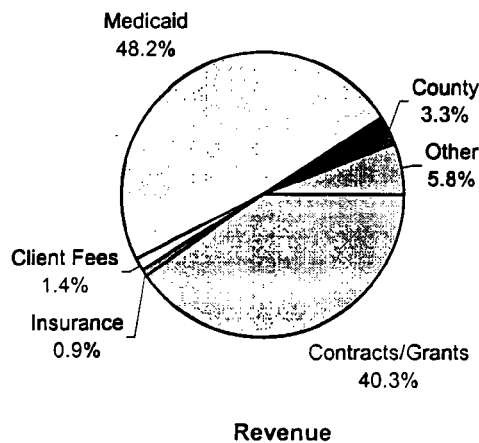
During the year, the Southwest Behavioral Health Center Authority Board approved and revised the Center's budget. Budget amendments were made to reflect changes in programs and related funding. Total expenditures including capital outlay during 2005 amounted to slightly less than \$11m, roughly equal to that spent in 2004. Revenues realized during the year were higher than final budgeted figures by \$1.8m. This was primarily due to over-realized Medicaid revenue of \$1.3m.

The following table compares the original budget and the revised budget to actual figures at year-end:

**SUMMARY of Actual Revenues & Expenditures  
Compared to Budget**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
Total Revenues	10,342,680	10,679,073	12,364,181
Total Expenditures including Capital Outlay	<u>10,324,984</u>	<u>10,656,619</u>	<u>10,985,186</u>
Excess (Deficit) Of Revenues			
Over Expenditures	<u>17,696</u>	<u>22,454</u>	<u>1,378,995</u>
Capital Outlay	125,000	125,000	434,845

The following chart depicts the Center's revenues by major source:



#### COMPARISON of Revenue Sources by Year

	Fiscal Year 2004	Fiscal Year 2005	Percent +/(-) '04 to '05
Contract & Grants	\$4,806,543	\$4,982,907	3.7%
Medicaid	\$5,753,806	\$5,965,193	3.7%
County	\$381,780	\$406,393	6.5%
Client Fees	\$221,501	\$177,376	(19.9%)
Insurance	\$251,155	\$109,634	(56.5%)
Other	<u>\$357,568</u>	<u>\$722,678</u>	<u>202.1%</u>
Total	<u>\$11,772,353</u>	<u>\$12,364,181</u>	<u>5%</u>

#### Capital Asset and Debt Administration

##### Capital Assets

The following table is a comparison of Net Capital Assets for fiscal years 2003, 2004 and 2005:

#### SUMMARY of Net Capital Assets As of June 30

	2003	2004	2005
Land and Improvement	\$1,298,526	\$1,348,440	\$1,378,954
Buildings	\$7,220,293	\$7,261,909	\$7,376,144
Construction in Progress	\$207,440	\$0	\$59,953
Vehicles	\$281,086	\$245,816	\$245,816
Furniture, Equipment	\$665,202	\$665,202	\$822,642
Leasehold Improvements	\$12,875	\$12,875	\$12,875
Depreciation	<u>(\$1,540,770)</u>	<u>(\$1,906,195)</u>	<u>(\$2,120,807)</u>
Total Net Capital Assets	\$8,144,652	\$7,865,341	\$7,775,577

The significant changes in Capital Assets during fiscal year 2005 were the purchase of the Desert Vista apartment complex, which is reflected under both Land (\$50,000) and Buildings (\$300,135), and the capitalization of the ProFiler software system (\$207,440) in the Furniture, Equipment category. There was also the sale and retirement of the Tabernacle Property reflected in reductions in Land (\$30,000) and Buildings (\$215,269).

### **Long-term Debt**

The Center incurred no additional long-term debt during the year and made all legally required payments of principal and interest on existing debt obligations. Principal repayment amounted to \$270,463 during fiscal year 2005, with \$246,632 in related interest expense.

The following table represents a summary of the Center's long-term debt, by type, and a comparison to prior year. Further details, by project, can be found in the footnotes to this financial statement:

#### **SUMMARY of Long-Term Debt As of June 30**

	2005	2004
Capital Leases	\$5,063,000	\$5,326,000
Notes Payable	\$365,054	\$372,517
Accrued Leave (long-term)	\$372,631	\$427,505
<b>Total</b>	<b>\$5,800,685</b>	<b>\$6,126,022</b>

Planned capital asset additions for the 2006 fiscal year include the completion of the Behavioral Health/Health Department-Shared office complex in Beaver and a three-unit residential duplex project in St. George. The Beaver project is expected to cost approximately \$600,000 with staff taking possession of the property in December 2005. This project will be funded from available fund balance as approved by the Board. The residential project consists of three duplexes on Center property, adjacent to the main St. George office. This mix of permanent and transitional housing is anticipated to cost approximately \$600,000. Half of the cost will be funded through State and/or Federal grants, the remainder from available fund balance.

### **Request for Information**

This financial report is designed to provide interested parties with a general overview of the Center's financial status. Questions concerning any of the reports and/or information contained in this financial audit, or requests for additional financial information, should be addressed to Southwest Behavioral Health Center, ATTN: Robert W. Powell, Controller, 474 West 200 North, Suite 300, St. George, UT 84770.

# **SOUTHWEST BEHAVIORAL HEALTH CENTER**

## **Statement of Net Assets**

**June 30, 2005**

	<u>Governmental Activities</u>
<b>Assets:</b>	
Cash & Cash Equivalents (Note 2)	\$ 9,757,237
Receivables (Note 3)	932,108
Due From Agency Fund	7,930
Restricted Cash (Note 2)	347,564
Deposits & Other Assets	35,234
Capital Assets (Note 4) (net of accumulated depreciation)	<u>7,775,577</u>
<b>Total Assets</b>	<u>18,855,650</u>
 <b>Liabilities:</b>	
Accounts Payable	514,711
Accrued Interest	64,325
Other Current Liabilities	1,830,825
Long-Term Debt:	
Due within one year (Notes 7 & 8)	272,220
Due in more than one year (Notes 7 & 8)	5,155,834
Accrued Leave (Long-Term Portion, See Note 7)	372,631
Deferred Revenue (Note 10)	<u>572,259</u>
<b>Total Liabilities</b>	<u>8,782,805</u>
 <b>Net Assets:</b>	
Invested in Capital Assets, net of related debt	2,695,087
Restricted (Note 10):	
Debt Service	347,564
Self Funded Insurance	125,000
Per Medicaid Contract	1,740,085
Medicaid Inpatients	200,000
60-day Operating Capital	1,740,085
Unrestricted	<u>3,225,024</u>
<b>Total Net Assets</b>	<u>\$ 10,072,845</u>

The notes to the financial statements are an integral part of this statement.

# SOUTHWEST BEHAVIORAL HEALTH CENTER

Statement of Activities  
For the Year Ended June 30, 2005

Function/Program	Program Revenues				Net Revenue (Expense) and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
<b>Governmental Activities:</b>					
Mental Health Services	\$ 5,864,014	\$ 5,485,956	\$ 1,467,633	\$ -	\$ 1,089,575
Substance Abuse Services	2,068,433	624,285	1,942,322	-	498,174
Other Services	687,699	29,774	643,280	-	(14,645)
Administration	2,029,928	298,900	1,336,065	-	(394,963)
<b>Total Governmental Activities</b>	<u>\$ 10,650,074</u>	<u>\$ 6,438,915</u>	<u>\$ 5,389,300</u>	<u>\$ -</u>	<u>1,178,141</u>
<b>General Revenues:</b>					
Other					216,847
Interest Earnings					214,061
<b>Total General Revenues</b>					<u>430,908</u>
<b>Change in Net Assets</b>					<u>1,609,049</u>
<b>Net Assets at Beginning of Year</b>					<u>8,463,796</u>
<b>Net Assets at End of Year</b>					<u>\$ 10,072,845</u>

The notes to the financial statements are an integral part of this statement.

# **SOUTHWEST BEHAVIORAL HEALTH CENTER**

## **Balance Sheet Governmental Funds June 30, 2005**

	<u>Major Fund</u>
	<u>General Fund</u>
<b>ASSETS</b>	
Cash & Cash Equivalents (Note 2)	\$ 9,757,237
Receivables (Note 3)	932,108
Due From Other Funds	7,930
Restricted Cash	347,564
Deposits & Other Assets	<u>35,234</u>
<b>Total Assets</b>	<u><u>\$ 11,080,073</u></u>
 <b>LIABILITIES AND FUND BALANCES:</b>	
<b>Liabilities:</b>	
Accounts Payable	\$ 514,711
Other Liabilities (Note 7)	1,830,825
Deferred Revenue	<u>572,259</u>
<b>Total Liabilities</b>	<u>2,917,795</u>
 <b>Fund Balances:</b>	
<b>Fund Balances (Note 10):</b>	
Reserved for Debt Service	347,564
Reserved for Self Funded Insurance	125,000
Reserved Per Medicaid Contract	1,740,085
Reserved for Medicaid Inpatients	200,000
Reserved for 60-day Operating Capital	1,740,085
Unreserved	<u>4,009,544</u>
<b>Total Fund Balances</b>	<u>8,162,278</u>
 <b>Total Liabilities &amp; Fund Balances</b>	<u><u>\$ 11,080,073</u></u>

The notes to the financial statements are an integral part of this statement.

**SOUTHWEST BEHAVIORAL HEALTH CENTER**  
Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
June 30, 2005

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Total fund balances for governmental funds	\$ 8,162,278
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Total net assets reported for governmental activities differs from the statement of net assets as follows:

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of the following:

Land	\$ 1,082,197	
Projects in Progress	59,953	
Land Improvements	296,757	
Furniture & Fixtures	465,977	
Machines & Equipment	356,665	
Vehicles	245,816	
Buildings & Improvements	7,376,144	
Leasehold Improvements	12,875	
Accumulated Depreciation	<u>(2,120,807)</u>	
Total Capital Assets		7,775,577

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general long-term debt is \$64,325. (64,325)

Long-term Liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end follow:

Capital Leases	\$ (5,063,000)	
Notes Payable	(365,054)	
Accrued Leave (Long-Term Portion)	<u>(372,631)</u>	
Total Long-term Liabilities		<u>(5,800,685)</u>

Total net assets of governmental activities	<u>\$ 10,072,845</u>
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The notes to the financial statements are an integral part of this statement.

**SOUTHWEST BEHAVIORAL HEALTH CENTER**  
**Combined Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**Year Ended June 30, 2005**

	<u>General Fund</u>
<b>REVENUES:</b>	
Contracts & Grants	\$ 4,982,907
Medicaid	5,965,193
Local Participation	406,393
Client Fees	177,376
Insurance Payments	109,634
Interest Income	214,061
Other Collections/Fees	186,711
Miscellaneous	321,906
<b>Total Revenues</b>	<u>12,364,181</u>
<b>EXPENDITURES:</b>	
Salaries & Wages	5,535,838
Fringe	1,812,569
<b>Total Payroll &amp; Related Expenses</b>	<u>7,348,407</u>
Professional Fees & Subcontracts	1,165,801
Travel	297,055
Workshops & Training	73,254
Supplies & Services	452,146
Space/Maintenance	291,611
Communications	228,161
Insurance	142,567
Capital Outlay	434,845
Miscellaneous	34,244
Debt Service:	
Principal Retirement	270,463
Interest	246,632
<b>Total Expenditures</b>	<u>10,985,186</u>
<b>Excess (Deficit) Of Revenues Over Expenditures</b>	1,378,995
Beginning Fund Balances	<u>6,783,283</u>
<b>ENDING FUND BALANCE</b>	<u><u>\$ 8,162,278</u></u>

The notes to the financial statements are an integral part of this statement.

**SOUTHWEST BEHAVIORAL HEALTH CENTER**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances of Government Funds to the Statement of Activities**  
**Year Ended June 30, 2005**

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Net change in fund balances - total governmental funds	\$ 1,378,995
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Amounts reported for governmental activities differs from the statement of activities as follows:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlays	\$ 420,387	
Gain on Disposal of Capital Assets	200,176	
Proceeds from Sales of Capital Assets	(305,235)	
Depreciation	<u>(405,091)</u>	
Total Capital Assets		(89,763)

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general long-term debt and related items is as follows:

Repayment of Long-Term Debt Principal	\$ 270,463	
Interest Expense	(5,520)	
Accrued Leave (long-term portion)	<u>54,874</u>	
Total Long-term Liabilities		<u>319,817</u>

Change in net assets of governmental activities	\$ <u>1,609,049</u>
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The notes to the financial statements are an integral part of this statement.

**SOUTHWEST BEHAVIORAL HEALTH CENTER**

**Combined Statement of Fiduciary Net Assets**

**June 30, 2005**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash & Cash Equivalents (Note 2)	<u>\$ 27,568</u>
<b>Total Assets</b>	<u><u>\$ 27,568</u></u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 142
Due To Other Funds	7,930
Other Liabilities (Note 7)	<u>19,496</u>
<b>Total Liabilities</b>	<u><u>\$ 27,568</u></u>

The notes to the financial statements are an integral part of this statement.

## **SOUTHWEST BEHAVIORAL HEALTH CENTER**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2005**

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The Southwest Behavioral Health Center (the Center) was officially formed on January 1, 1985. In accordance with provisions of Utah State Law the elected county commissions from Beaver, Garfield, Iron, Kane and Washington counties have established a mental health/alcohol & drug authority board to govern the operation of the Center. This Board consists of one designated county commissioner and/or citizen representative from each of the five counties. Effective July 1, 2005, the Center changed its name from Southwest Center. Prior to July 1, 1996, the Center was known as Southwest Utah Mental Health/Alcohol & Drug Center.

The Center is established to provide quality comprehensive mental health and alcohol and drug treatment and prevention services to the residents of the five county area by means of promoting, maintaining and restoring positive emotional, psychological and psychosocial well being for individuals, families and communities.

#### **NOTE 1: SUMMARY OF ACCOUNTING AND REPORTING POLICIES**

The accounting and reporting policies of the Southwest Behavioral Health Center (the Center) conform with generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

Reporting Entity - The reporting entity is defined as the oversight unit and all related component units. The following definitions and criteria were used in determining the units to be included in the general purpose financial statements. The oversight unit is the component unit that has the ability to exercise the basic criterion of oversight responsibility. Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to: a) financial interdependency, b) selection of governing authority, c) designation of management, d) ability to significantly influence operations, and e) accountability for fiscal matters. Oversight responsibility implies that a governmental unit is dependent on another and the dependent unit should be reported as part of the other. An oversight unit is the primary unit of government directly responsible to the authority board.

The component unit is a separate governmental unit, agency, or nonprofit corporation that is evaluated pursuant to the criteria listed above to determine if it is to be combined with other component units and the oversight unit to constitute the reporting entity. Based on the application of these criteria, no additional component units have been included.

Government-wide and Fund Financial Statements - The *government-wide financial statements* (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Center. These statements include the financial activities of the overall government, except for fiduciary activities.

## SOUTHWEST BEHAVIORAL HEALTH CENTER

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

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#### NOTE 1: SUMMARY OF ACCOUNTING AND REPORTING POLICIES (CONTINUED)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those which are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues. The Center only operates one governmental-type fund.

Measurement focus, basis of accounting, and financial statement presentation - The government-wide financial statements are reported using the *economic measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items, are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Center considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Grant revenue is recognized when qualified expenditures are incurred and a contractual claim exists with the grantor agency. All other revenue items are considered to be measurable and available only when cash is received by the Center.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The Center reports the following major governmental funds:

General Fund - The General fund is the general operating fund of the Center and accounts for all revenues and expenditures not designated to other funds.

In addition the Center reports the following Fiduciary Funds:

Agency Funds - Transactions related to assets held by the Center as an agent for individual and private organizations are accounted as an agency fund. Agency Funds include assets held by the Center for Local Interagency Children and for employees in conjunction with the Center's cafeteria plan.

## SOUTHWEST BEHAVIORAL HEALTH CENTER

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

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#### NOTE 1: SUMMARY OF ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Capital Assets - The fixed assets of the Center, which include land, land improvements, buildings and improvements, furniture and fixtures, machines and equipment, and vehicles are reported in the government-wide financial statements. The Center defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Capital assets of the Center are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	5 - 15
Buildings and Improvements	5 - 30
Leasehold Improvements	10
Vehicles	3 - 5
Machines and Equipments	5 - 20
Furniture and Fixtures	5 - 20

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

Budgetary Data - The Center adopts a budget for the General Fund. The adopted budget is prepared using the same basis of accounting as the Center's financial statements. All budget amounts presented in the accompanying financial statements have been adjusted for legally authorized revisions of the annual budgets during the year.

Compensated Absences - The current portion of accumulated unpaid vacation and other employee benefit amounts are included in accrued liabilities. The long-term portion is included in the government-wide financial statements.

## **SOUTHWEST BEHAVIORAL HEALTH CENTER**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2005**

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#### **NOTE 2: CASH AND INVESTMENTS**

The Center follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and investing transactions. Center funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the Center to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-grade commercial paper, banker's acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah.

The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The Center considers the actions of the Council to be necessary and sufficient for adequate protection of its uninsured bank deposits.

The Center pools its cash and investments into various demand and interest-bearing accounts. A summary of the cash and investments at June 30, 2005 is as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
State Treasurer	\$ 8,533,760	\$8,535,075
Trustee Held:		
State Treasurer	347,564	347,618
Demand Accounts	90,993	90,993
Money Market Accounts	1,125,683	1,125,683
Petty Cash	6,275	6,275
Other	<u>526</u>	<u>526</u>
Total	<u>\$ 10,104,801</u>	<u>\$ 10,106,170</u>

At June 30, 2005, the carrying amount of the Center's deposits was \$1,216,676 and the bank balances were \$1,450,978. Of the bank balances, \$206,001 was covered by Federal Depository Insurance and \$1,244,977 was uninsured and uncollateralized nor are they required to be by State statute.

# SOUTHWEST BEHAVIORAL HEALTH CENTER

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

### NOTE 3: RECEIVABLES

Receivables consist mainly of amounts due from state and local agencies which the Center has contracted with. The amounts due are for reimbursable expenditures made and services rendered prior to June 30, 2005, and billed to the appropriate agencies.

### NOTE 4: CAPITAL ASSETS

The following is the Capital Asset activity for the year ended June 30, 2005:

	Balance 6/30/2004	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	Balance 6/30/2005
Capital assets, not being depreciated:					
Land	\$1,051,683	\$ 50,000	\$ (30,000)	\$ 10,515	\$1,082,197
Work in Progress	237,294	59,953	—	(237,294)	59,953
Total not being depreciated	<u>1,288,977</u>	<u>109,953</u>	<u>(30,000)</u>	<u>(226,779)</u>	<u>1,142,150</u>
Capital assets, being depreciated:					
Land Improvements	296,757	—	—	—	296,757
Vehicles	245,816	—	—	—	245,816
Furniture & Fixtures	465,977	—	—	—	465,977
Machinery & Equipment	199,225	—	(50,000)	207,440	356,665
Buildings & Improvements	7,261,909	310,435	(215,269)	19,069	7,376,144
Leasehold Improvements	12,875	—	—	—	12,875
Total being depreciated	<u>8,482,559</u>	<u>310,435</u>	<u>(265,269)</u>	<u>226,509</u>	<u>8,754,234</u>
Accumulated Depreciation	<u>(1,906,195)</u>	<u>(405,091)</u>	<u>190,479</u>	<u>—</u>	<u>(2,120,807)</u>
<b>TOTAL CAPITAL ASSETS, NET</b>	<b><u>\$ 7,865,341</u></b>	<b><u>\$ 15,297</u></b>	<b><u>\$ (104,791)</u></b>	<b><u>\$ (270)</u></b>	<b><u>\$7,775,577</u></b>

Depreciation expense for the year ended June 30, 2005 was allocated to the following activities:

Mental Health	\$ 189,632
Substance Abuse	139,877
Other Programs	39,335
Administration	<u>36,247</u>
<b>Total Depreciation Expense</b>	<b><u>\$ 405,091</u></b>

## SOUTHWEST BEHAVIORAL HEALTH CENTER

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005

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#### NOTE 5: RETIREMENT PLAN

The Center contributes to the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System cost sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living adjustments, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by the writing to the Utah Retirement System, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

**Funding Policy.** Plan members required to contribute a percent of their covered salary (all or part may be paid by the employer) to the respective systems to which they belong. The Center is required to contribute 9.62% of their annual covered salary. The contribution requirements of the Systems are authorized by statute and specified by the board.

The required contributions and amounts received for the 2004/2005 fiscal year and the two previous years are as follows:

<u>System</u>	<u>Year</u>	<u>Employee Paid Contributions</u>	<u>Employee Contributions Employer Paid</u>	<u>Employer Contributions</u>	<u>Salary Subject to Retirement Contributions</u>
Local Governmental - Noncontributory	2005	N/A	N/A	\$ 550,066	\$ 4,958,572
	2004	N/A	N/A	493,548	5,130,493
	2003	N/A	N/A	407,523	4,689,569
457 Plan Contributions	2005	\$ 8,796	\$ —	N/A	
	2004	3,932	—	N/A	
	2003	764	—	N/A	
401(k) Contributions	2005	\$ 188,588	\$ 6,159	N/A	
	2004	172,738	7,236	N/A	
	2003	146,288	4,285	N/A	

# **SOUTHWEST BEHAVIORAL HEALTH CENTER**

## **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2005**

### **NOTE 6: LONG-TERM DEBT**

Long-Term Debt at June 30, 2005, consisted of the following:

The Center has a mortgage payable with Chase Home Mortgage Corporation in order to finance the purchase of a residential duplex in St. George, Utah. The mortgage calls for monthly installments of \$618 including interest at 9 percent, with a maturity date of January, 2015. The remaining debt service is as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt</u> <u>Service</u>
2006	\$ 3,400	\$ 4,017	\$ 7,417
2007	3,719	3,697	7,416
2008	4,068	3,349	7,417
2009	4,450	2,967	7,417
2010	4,867	2,550	7,417
2011	5,323	2,093	7,416
2012	5,823	1,594	7,417
2013	6,369	1,047	7,416
2014	6,967	450	7,417
2015	<u>1,009</u>	<u>13</u>	<u>1,022</u>
Totals	<u>\$ 45,995</u>	<u>\$ 21,777</u>	<u>\$ 67,772</u>

In August, 1996, the Center entered into a capital lease payable to Zions First National Bank in order to finance the purchase of a residential duplex in Cedar City, Utah. The lease calls for annual payments ranging from \$12,369 to \$13,379 including interest ranging from 5.5 percent to 6.2 percent with a maturity date of August, 2016. The remaining debt service is as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt</u> <u>Service</u>
2006	\$ 6,000	\$ 6,459	\$ 12,459
2007	7,000	6,086	13,086
2008	7,000	5,653	12,653
2009	8,000	5,236	13,236
2010	8,000	4,760	12,760
2011	9,000	4,284	13,284
2012	9,000	3,749	12,749
2013	10,000	3,213	13,213
2014	10,000	2,618	12,618
2015	11,000	2,023	13,023
2016	11,000	1,368	12,368
2017	<u>12,000</u>	<u>714</u>	<u>12,714</u>
Totals	<u>\$ 108,000</u>	<u>\$ 46,163</u>	<u>\$ 154,163</u>

# **SOUTHWEST BEHAVIORAL HEALTH CENTER**

## **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2005**

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### **NOTE 6: LONG-TERM DEBT (CONTINUED)**

In May, 1999, the Center issued its Certificates of Participation Series 1999 in the amount of \$2,160,000 in order to finance the construction of an office building in Cedar City, Utah. The certificates were sold to Zions First National Bank and a capital lease payable for the land and improvements was executed concurrently with the bank to secure payment. Principal payments ranging from \$90,000 to \$150,000 are due annually in June, with interest payments ranging from \$4,163 to \$60,783 due semi-annually in December and June. Interest rates on the lease range from 5.35 percent to 5.75 percent with a maturity of June, 2020. Each year, the Center has the option of revoking this lease but does not intend to exercise this option. The remaining debt service is as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt</u> <u>Service</u>
2006	\$ 100,000	\$ 96,625	\$ 196,625
2007	105,000	90,975	195,975
2008	110,000	85,043	195,043
2009	120,000	78,772	198,772
2010	90,000	71,873	161,873
2011	90,000	66,877	156,877
2012	100,000	61,883	161,883
2013	105,000	56,332	161,332
2014	110,000	50,505	160,505
2015	115,000	44,400	159,400
2016	125,000	38,018	163,018
2017	130,000	31,080	161,080
2018	135,000	23,865	158,865
2019	145,000	16,372	161,372
2020	<u>150,000</u>	<u>8,325</u>	<u>158,325</u>
Totals	<u>\$ 1,730,000</u>	<u>\$ 820,945</u>	<u>\$ 2,550,945</u>

# SOUTHWEST BEHAVIORAL HEALTH CENTER

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

### NOTE 6: LONG-TERM DEBT (CONTINUED)

In February, 2004, the Center entered into a mortgage payable of \$330,000 with a private entity, Big Time Developers, LLC. in order to finance the purchase of land and building in Cedar City, Utah. The mortgage calls for monthly payments of \$2,775 including interest at 9.5 percent, with a maturity date of January, 2032. The remaining debt service is as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	Annual Debt <u>Service</u>
2006	\$ 2,820	\$ 30,483	\$ 33,303
2007	3,100	30,204	33,304
2008	3,408	29,896	33,304
2009	3,746	29,558	33,304
2010	4,117	29,186	33,303
2011	4,526	28,778	33,304
2012	4,975	28,328	33,303
2013	5,469	27,835	33,304
2014	6,012	27,292	33,304
2015	6,608	26,695	33,303
2016	7,264	26,039	33,303
2017	7,985	25,318	33,303
2018	8,778	24,526	33,304
2019	9,649	23,655	33,304
2020	10,607	22,697	33,304
2021	11,659	21,644	33,303
2022	12,817	20,487	33,304
2023	14,089	19,215	33,304
2024	15,487	17,817	33,304
2025	17,024	16,280	33,304
2026	18,713	14,590	33,303
2027	20,571	12,733	33,304
2028	22,612	10,691	33,303
2029	24,856	8,447	33,303
2030	27,323	5,980	33,303
2031	30,035	3,269	33,304
2032	<u>14,809</u>	<u>548</u>	<u>16,884</u>
Totals	<u>\$ 319,059</u>	<u>\$ 562,192</u>	<u>\$ 881,251</u>

# **SOUTHWEST BEHAVIORAL HEALTH CENTER**

## **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2005**

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### **NOTE 6: LONG-TERM DEBT (CONTINUED)**

In February, 2003, Garfield County, Utah (on behalf of the Center) issued their Revenue Bonds Series B in the amount of \$1,600,000 in order to provide funds for the acquisition and construction of an office complex in St. George, Utah. The bonds were purchased by the State of Utah and the source of payment for the Bonds is the Center lease payments on a capital lease payable with Garfield County secured by the land and improvements. Principal payments ranging from \$70,000 to \$279,000 are due annually in February, with interest payments ranging from \$6,696 to \$38,069 due semi-annually in August and February. Interest rates on the lease range from 2.9 percent to 5.3 percent. The remaining debt service is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service</u>
2006	\$ 78,000	\$ 67,836	\$ 145,836
2007	82,000	64,287	146,287
2008	85,000	60,351	145,351
2009	90,000	56,144	146,144
2010	94,000	51,598	145,598
2011	99,000	46,758	145,758
2012	104,000	41,560	145,560
2013	110,000	36,048	146,048
2014	115,000	30,768	145,768
2015	121,000	25,248	146,248
2016	126,000	19,440	145,440
2017	<u>279,000</u>	<u>13,392</u>	<u>292,392</u>
Totals	<u>\$ 1,383,000</u>	<u>\$ 513,430</u>	<u>\$ 1,896,430</u>

# SOUTHWEST BEHAVIORAL HEALTH CENTER

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

### NOTE 6: LONG-TERM DEBT (CONTINUED)

In February, 2003, Garfield County (on behalf of the Center) issued their Revenue Bonds Series A in the amount of \$2,000,000 in order to provide funds for the acquisition and construction of an office complex in St. George, Utah. The Bonds were purchased by the State of Utah and the source of payment for the Bonds is the Center lease payments on a capital lease payable with Garfield County secured by the land and improvements. The lease calls for annual payments in February ranging from \$128,000 to \$128,900 including interest at 2.5 percent. The remaining debt service is as follows:

Year Ending June 30	Principal	Interest	Annual Debt Service
2006	\$ 82,000	\$ 46,050	\$ 128,050
2007	84,000	44,000	128,000
2008	87,000	41,900	128,900
2009	89,000	39,725	128,725
2010	91,000	37,500	128,500
2011	93,000	35,225	128,225
2012	95,000	32,900	127,900
2013	98,000	30,525	128,525
2014	100,000	28,075	128,075
2015	103,000	25,575	128,575
2016	105,000	23,000	128,000
2017	108,000	20,375	128,375
2018	111,000	17,675	128,675
2019	114,000	14,900	128,900
2020	116,000	12,050	128,050
2021	119,000	9,150	128,150
2022	122,000	6,175	128,175
2023	<u>125,000</u>	<u>3,125</u>	<u>128,125</u>
Totals	<u>\$ 1,842,000</u>	<u>\$ 467,925</u>	<u>\$ 2,309,925</u>

The following is a summary of the Center's Long-Term Debt by type at June 30, 2005:

Capital Leases	\$ 5,063,000
Notes Payable	<u>365,054</u>
Total	<u>\$ 5,428,054</u>

# SOUTHWEST BEHAVIORAL HEALTH CENTER

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

### NOTE 6: LONG-TERM DEBT (CONTINUED)

The following is a summary of Long-Term Debt transactions for the year ended June 30, 2005:

Balance <u>6/30/2004</u>	<u>New Debt</u>	<u>Repayments</u>	Balance <u>6/30/2005</u>
\$ 5,698,517	\$ —	\$ 270,463	\$ 5,428,054

Total remaining debt service by year is as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service</u>
2006	\$ 272,220	\$ 251,470	\$ 523,690
2007	284,819	239,250	524,069
2008	296,475	226,191	522,666
2009	315,195	212,402	527,597
2010	291,984	197,467	489,451
2011	300,850	184,015	484,864
2012	318,798	170,013	488,811
2013	334,838	155,001	489,839
2014	347,978	139,708	487,686
2015	357,618	123,954	481,572
2016	374,264	107,865	482,130
2017	536,985	90,879	627,865
2018	254,778	66,066	320,844
2019	268,649	54,927	323,576
2020	276,607	43,072	319,679
2021	130,659	30,794	161,453
2022	134,817	26,662	161,479
2023	139,089	22,340	161,429
2024	15,487	17,817	33,304
2025	17,024	16,280	33,304
2026	18,713	14,590	33,303
2027	20,571	12,733	33,304
2028	22,612	10,691	33,303
2029	24,856	8,447	33,303
2030	27,323	5,980	33,303
2031	30,035	3,269	33,304
2032	14,810	548	15,357
Totals	<u>\$5,428,054</u>	<u>\$ 2,432,431</u>	<u>\$ 7,860,485</u>

## **SOUTHWEST BEHAVIORAL HEALTH CENTER**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2005**

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#### **NOTE 7: OTHER LIABILITIES**

Other liabilities of the General Fund at June 30, 2005, consisted of the following:

Medicaid Match Payable	\$ 1,072,699
Payroll Related Liabilities	745,481
Other Accrued Liabilities	<u>12,645</u>
<b>Total Other Liabilities</b>	<b><u>\$ 1,830,825</u></b>

Medicaid match payable resulted from the invoice for the last quarter of the fiscal year from the Utah Division of Health Care Financing (DHCF) and amounts held by the Center pending possible corrections of other invoices from the DHCF. The amount accrued is the Medicaid match payment agreed to by the Center and DHCF for year ended June 30, 2005.

Payroll related liabilities include the current accrual for compensated absences which have been estimated at June 30, 2005 to be \$93,158. The amount (\$372,631) that has been considered to be long-term has been included in the government-wide financial statements.

#### **NOTE 8: COMMITMENTS**

The following is a schedule by years of future minimum rental payments for facilities and equipment under operating leases that have initial non-cancelable lease terms in excess of one year as of June 30, 2005:

<b>Year Ending</b>	<b>Equipment</b>
<b><u>June 30</u></b>	
2006	\$ 44,356
2007	29,664
2008	18,816
2009	5,614
2010	<u>3,275</u>
<b>TOTAL</b>	<b><u>\$ 101,725</u></b>

Currently all facility leases are month-to-month. Total rent expense incurred by the Center for the year ended June 30, 2005 was \$43,469.

Assets financed through capital leases included in government-wide financial statements (See Note 4) totaled \$1,836,619. The future minimum lease payments for these capital leases were included in the maturities of Long-Term Debt (See Note 6). Amortization of these assets are included in depreciation expense.

## **SOUTHWEST BEHAVIORAL HEALTH CENTER**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2005**

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#### **NOTE 9: LITIGATION**

During the ordinary course of its operation, the Center is party to various claims, legal actions, and complaints. In the opinion of the Center's management and legal counsel, these matters are not anticipated to have a material financial impact on the Center as any payment would be covered by the Center's insurance company.

#### **NOTE 10: RESERVED FUND BALANCES**

Reserved fund balance represents that portion of fund balance which is either not subsequently appropriated for expenditure or legally segregated for a specific use.

State Medicaid requires that the Center establish and maintain a funded reserve balance to cover the cost of all services provided. The amount of this reserve fund must be at least equal to the Center's expected average expenses for all services for a 60-day period. This funded reserve is calculated at total projected annual expenses divided by twelve, times two. The Center must notify the Department of Health in writing if the funded reserve drops below the required balance. The Center determined that this amount at June 30, 2005, was \$1,740,085. The Medicaid Contract also establishes that the Center may be responsible for unanticipated inpatient costs in excess of annual premiums. The Center has determined to reserve \$200,000 for this risk pool. On July 1, 2001, the Center switched to a partially self-funded health plan. The Center contracted with Public Employees Health Program (PEHP) to process claims submitted by its covered employees. The Center has determined to reserve \$125,000 for this self funded insurance. Also, the Center has reserved \$1,740,085 for a 60-day capital reserve.

In addition, \$347,564 has been placed with a trustee that has been reserved for debt service.

#### **NOTE 11: RISK MANAGEMENT**

The Center carries commercial insurance for its automobile and general liability and uses the state carrier for its workers' compensation coverage. Unemployment compensation is handled on a cost of benefits reimbursement basis with the State of Utah. For its employees, the Center carries commercial insurance for long term disability policies. Additional liabilities are not incurred from the settlement of claims under these policies. On July 1, 2001, the Center switched to a partially self-funded health plan which includes dental for its employees. The Center contracted with Public Employees Health Program (PEHP) to process claims submitted by its covered employees. The following wording is from the contract: "All agencies participating in the Risk Pool shall participate in a self-funded Reinsurance Plan governed by the Utah State Retirement Board. The Reinsurance Plan covers specific stop-loss for claims of individuals exceeding \$75,000 annually. It also covers aggregate stop loss coverage of the Risk Pool exceeding 110% of expected claims up to 125% of expected claims. Claim dollars up to 110% and in excess of 125% are paid by the Risk Pool."

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REQUIRED  
SUPPLEMENTARY  
INFORMATION

**SOUTHWEST BEHAVIORAL HEALTH CENTER**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**Year Ended June 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
	<u>Original</u>	<u>Revised</u>		
<b>REVENUES:</b>				
Contracts & Grants	\$ 4,911,065	\$ 4,954,183	\$ 4,982,907	\$ 28,724
Medicaid	4,476,500	4,767,500	5,965,193	1,197,693
Local Participation	406,390	406,390	406,393	3
Client Fees	174,000	166,000	177,376	11,376
Insurance Payments	70,000	110,000	109,634	(366)
Interest Income	100,000	125,000	214,061	89,061
Other Collections/Fees	115,100	97,500	186,711	89,211
Miscellaneous	89,625	52,500	321,906	269,406
<b>Total Revenues</b>	<u>10,342,680</u>	<u>10,679,073</u>	<u>12,364,181</u>	<u>1,685,108</u>
<b>EXPENDITURES:</b>				
Salaries & Wages	5,551,359	5,551,359	5,535,838	15,521
Fringe	1,798,641	1,798,641	1,812,569	(13,928)
Total Payroll & Related Expenses	<u>7,350,000</u>	<u>7,350,000</u>	<u>7,348,407</u>	<u>1,593</u>
Professional Fees & Subcontracts	935,837	1,120,837	1,165,801	(44,964)
Travel	230,000	298,000	297,055	945
Workshops & Training	65,000	73,300	73,254	46
Supplies & Services	415,000	454,000	452,146	1,854
Space/Maintenance	275,000	291,295	291,611	(316)
Communications	241,500	231,195	228,161	3,034
Insurance	152,735	152,735	142,567	10,168
Capital Outlay	125,000	125,000	434,845	(309,845)
Miscellaneous	49,000	48,500	34,244	14,256
Debt Service:				
Principal Retirement	248,798	248,798	270,463	(21,665)
Interest	237,114	262,959	246,632	16,327
<b>Total Expenditures</b>	<u>10,324,984</u>	<u>10,656,619</u>	<u>10,985,186</u>	<u>(328,567)</u>
<b>Excess (Deficit) Of Revenues</b>				
Over Expenditures	17,696	22,454	1,378,995	1,356,541
Beginning Fund Balances	<u>6,783,283</u>	<u>6,783,283</u>	<u>6,783,283</u>	<u>-</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 6,800,979</u>	<u>\$ 6,805,737</u>	<u>\$ 8,162,278</u>	<u>\$ 1,356,541</u>

The notes to the financial statements are an integral part of this statement.

OTHER  
SUPPLEMENTARY  
INFORMATION

# SOUTHWEST BEHAVIORAL HEALTH CENTER

Combining Schedule of Expenditures

For the Year Ended June 30, 2005

	<u>Mental Health</u>	<u>Substance Abuse</u>	<u>Other Programs</u>	<u>Administration</u>	<u>Total</u>
<b>EXPENDITURES:</b>					
Salaries & Wages	\$ 3,019,228	\$ 1,087,670	\$ 428,370	\$ 1,000,570	\$ 5,535,838
Fringe	968,763	400,325	130,129	313,352	1,812,569
Total Payroll & Related Expenses	<u>3,987,991</u>	<u>1,487,995</u>	<u>558,499</u>	<u>1,313,922</u>	<u>7,348,407</u>
Professional Fees & Subcontracts	636,216	113,802	2,255	413,528	1,165,801
Travel	157,762	56,436	5,756	77,101	297,055
Workshops & Training	36,761	22,737	7,361	6,395	73,254
Supplies & Services	208,888	142,412	29,401	71,445	452,146
Space/Maintenance	206,238	38,609	16,353	30,411	291,611
Communications	143,927	22,960	8,335	52,939	228,161
Insurance	75,041	34,960	13,984	18,582	142,567
Capital Outlay	59,492	375,353	-	-	434,845
Miscellaneous	6,301	68	123	27,752	34,244
Debt Service:					
Principal Retirement	251,531	18,932	-	-	270,463
Interest	<u>200,729</u>	<u>8,647</u>	<u>6,297</u>	<u>30,959</u>	<u>246,632</u>
<b>Total Expenditures</b>	<u><u>\$ 5,970,877</u></u>	<u><u>\$ 2,322,911</u></u>	<u><u>\$ 648,364</u></u>	<u><u>\$ 2,043,034</u></u>	<u><u>\$ 10,985,186</u></u>

The notes to the financial statements are an integral part of this statement.

# SOUTHWEST BEHAVIORAL HEALTH CENTER

## Agency Funds

### Combining Statement of Changes in Assets and Liabilities Year Ended June 30, 2005

	Balance 30-Jun-2004	Additions	Deductions	Balance 30-Jun-2005
<b><u>Local Interagency Council</u></b>				
<b><u>Assets</u></b>				
Cash	\$ 15,119	\$ 15,751	\$ (10,204)	\$ 20,666
Total Assets	<u>\$ 15,119</u>	<u>\$ 15,751</u>	<u>\$ (10,204)</u>	<u>\$ 20,666</u>
<b><u>Liabilities</u></b>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Other Liabilities	15,119	15,751	(10,204)	20,666
Total Liabilities	<u>\$ 15,119</u>	<u>\$ 15,751</u>	<u>\$ (10,204)</u>	<u>\$ 20,666</u>
<b><u>Payroll Cafeteria Fund</u></b>				
<b><u>Assets</u></b>				
Cash	\$ 14,435	\$ 40,222	\$ (47,755)	\$ 6,902
Total Assets	<u>\$ 14,435</u>	<u>\$ 40,222</u>	<u>\$ (47,755)</u>	<u>\$ 6,902</u>
<b><u>Liabilities</u></b>				
Accounts Payable	\$ -	\$ 142	\$ -	\$ 142
Due To Other Funds	8,000	-	(70)	7,930
Other Liabilities	6,435	40,080	(47,685)	(1,170)
Total Liabilities	<u>\$ 14,435</u>	<u>\$ 40,222</u>	<u>\$ (47,755)</u>	<u>\$ 6,902</u>
<b><u>TOTALS-ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash	\$ 29,554	\$ 55,973	\$ (57,959)	\$ 27,568
Total Assets	<u>\$ 29,554</u>	<u>\$ 55,973</u>	<u>\$ (57,959)</u>	<u>\$ 27,568</u>
<b><u>Liabilities</u></b>				
Accounts Payable	\$ -	\$ 142	\$ -	\$ 142
Due To Other Funds	8,000	-	(70)	7,930
Other Liabilities	21,554	55,831	(57,889)	19,496
Total Liabilities	<u>\$ 29,554</u>	<u>\$ 55,973</u>	<u>\$ (57,959)</u>	<u>\$ 27,568</u>

The notes to the financial statements are an integral part of this statement.

# SOUTHWEST BEHAVIORAL HEALTH CENTER

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Federal or Pass-Through Grantor	Federal CFDA #	Expenditures	Major Program
<b><u>U.S. DEPT. OF HEALTH &amp; HUMAN SERVICES:</u></b>			
Passed Through Utah State Dept. Of Human Services			
Division Of Substance Abuse (SAPT Block Grant)	93.959	\$ 1,115,295	X
Division Of Substance Abuse (KD&A Program)	93.230	148,800	
Division Of Mental Health Services:			
Block Grant for Community Mental Health Services	93.958	152,900	
Comprehensive Community Mental Health Services for Children	93.104	214,045	
<b>Total U.S. Dept. Of Health &amp; Human Services</b>		<u>1,631,040</u>	
<b><u>U.S. DEPT. OF EDUCATION:</u></b>			
Passed Through Utah State Dept. Of Human Services			
Division Of Substance Abuse-Drug Free Schools	84.186B	35,786	
Drug Free Schools Passed Through:			
Beaver County School District	84.186A	5,171	
Garfield County School District	84.186A	5,974	
Iron County School District	84.186A	37,809	
Kane County School District	84.186A	7,701	
Washington County School District	84.186A	65,000	
<b>Total U.S. Dept. Of Education</b>		<u>157,441</u>	
<b><u>U.S. DEPT. OF JUSTICE:</u></b>			
Passed Through Washington County:			
Drug Court Discretionary Grant Program	16.585	20,000	
<b>TOTAL FEDERAL EXPENDITURES</b>		<u><u>\$ 1,808,481</u></u>	

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note A: Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Southwest Center and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

TO THE AUTHORITY BOARD  
SOUTHWEST BEHAVIORAL HEALTH CENTER  
ST. GEORGE, UTAH

We have audited the financial statements of the governmental activities and each major fund of Southwest Behavioral Health Center as of and for the year ended June 30, 2005, which collectively comprise the Center's basic financial statements and have issued our report thereon dated November 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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This report is intended for the information and use of the Southwest Behavioral Health Center Authority Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Hafen, Buckner, Everett & Graff PC*

HAFEN, BUCKNER, EVERETT & GRAFF, PC  
November 30, 2005



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

TO THE AUTHORITY BOARD  
SOUTHWEST BEHAVIORAL HEALTH CENTER  
ST. GEORGE, UTAH

Compliance

We have audited the compliance of the Southwest Behavioral Health Center with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion the Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable

to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the Southwest Behavioral Health Center's Authority Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Hafen, Buckner, Everett & Graff PC*

HAFEN, BUCKNER, EVERETT & GRAFF, PC  
November 30, 2005

**SOUTHWEST BEHAVIORAL HEALTH CENTER**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

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**I. SUMMARY OF AUDITORS' RESULTS**

- A. Type of audit report issued on the financial statements: Unqualified opinion.
- B. Reportable conditions in internal control disclosed by the audit: None.
- C. Instances of noncompliance material to the financial statements: None.
- D. Reportable conditions in internal control over major programs disclosed by the audit: None
- E. Type of report issued on compliance for major programs: Unqualified opinion.
- F. Audit findings required to be reported under paragraph .510(a): None.
- G. Major Programs:

<u>Program</u>	<u>CFDA</u>	<u>Amount</u>
Block Grant for Prevention and Treatment of Substance Abuse	93.959	\$ 1,115,295

- H. Dollar threshold used to distinguish between Type A and B programs, as described in paragraph .520(b): \$300,000.
- I. The Southwest Behavioral Health Center qualifies as a low-risk auditee under paragraph .530.

**II. FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED  
IN ACCORDANCE WITH *GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS***  
Finding: None

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS AS DEFINED IN PARAGRAPH 510(A)**

<u>FINDING</u>	<u>QUESTIONED COSTS</u>
None	None



## **AUDITORS' REPORT ON STATE LEGAL COMPLIANCE**

TO THE AUTHORITY BOARD  
SOUTHWEST BEHAVIORAL HEALTH CENTER  
ST. GEORGE, UTAH

We have audited the financial statements of the governmental activities and each major fund of Southwest Behavioral Health Center as of and for the year ended June 30, 2005, which collectively comprise the Center's basic financial statements and have issued our report thereon dated November 30, 2005. As part of our audit, we have audited the Center's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The Center received the following major state assistance programs from the State of Utah:

- General Mental Health Services (Dept. of Human Services)
- Alcohol & Drug Treatment (Dept. of Human Services)
- Alcohol & Drug Prevention (Dept. of Human Services)
- Residential Service (Dept. of Human Services)
- Alternatives (Dept. of Human Services)
- SICA Grant - Prevention (Dept. of Human Services)

The Center also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the Center's financial statements).

- High Risk Youth (Dept. of Human Services)
- Community Outplacement (Dept. of Human Services)
- Children at Risk (Dept. of Human Services)
- Protective Intervention (Dept. of Human Services)
- Forensic Evaluation (Dept. of Human Services)
- Passar Evaluation (Dept. of Human Services)
- S.A.P.A. Grant (Dept. of Human Services)

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Our audit also included testwork on the Center's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt  
Cash Management  
Special Districts

Purchasing Requirements  
Budgetary Compliance  
Other Compliance  
Requirements

The management of the Center is responsible for the Center's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Southwest Behavioral Health Center, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

*Hafen, Buckner, Everett & Graff PC*

HAFEN, BUCKNER, EVERETT & GRAFF, PC  
November 30, 2005



November 30, 2005

AUTHORITY BOARD  
SOUTHWEST BEHAVIORAL HEALTH CENTER  
ST. GEORGE, UTAH

We have audited the financial statements of the governmental activities and each major fund of Southwest Behavioral Health Center as of and for the year ended June 30, 2005, which collectively comprise the Center's basic financial statements and have issued our report thereon dated November 30, 2005. In planning and performing our audit, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control.

Our audit made in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, including the study and evaluation of the Center's system of internal control over financial reporting for the year ended June 30, 2005, that was made for the purposes set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. However, such study and evaluation disclosed the following conditions that we believe should be brought to your attention.

**Current Year Findings:**

**Fund Balance**

**Finding:** Utah State Law provides that the maximum unreserved fund balance should not exceed 25 percent of the current year revenues. At June 30, 2005, the Center's unreserved fund balance was \$4,009,544 which was \$918,499 more than the maximum fund balance allowed by state law.

**Recommendation:** We recommend that the Center comply with the state requirement by reserving additional funds identified for capital needs or operational requirements.

HAFEN  
BUCKNER  
EVERETT  
& GRAFF PC  
CERTIFIED PUBLIC  
ACCOUNTANTS

**Budget**

**Finding:** For the year ended June 30, 2005, the Center's expenditures exceeded the amount appropriated in the final adopted budget which is a violation of state law. This appeared to be due to not including the specific board approval of significant capital outlay in the revised budget.

**Recommendation:** We recommend that the Center's expenditures not exceed the amount appropriated in the final adopted budget.

**DEPOSITS**

**Finding:** There were a few instances of not depositing monies within three banking days as required by state law.

**Recommendation:** We recommend that management reemphasize this requirement with each of the responsible employees at each location.

**Credit Cards:**

**Finding:** It came to our attention during the audit that there was a credit card in both the Center and the employee's name that was being used by the employee to purchase personal items for which the employee then reimbursed the Center. The statement for this credit card was mailed by the credit card company to the employee who then brought it to the Center for payment. We understand that the employee no longer has this credit card.

**Recommendation:** We recommend that the Center establish a policy prohibiting the use of any credit card in the Center's name for employee personal purchases. We further recommend that the statements be mailed directly to the Center's accounts payable department.

**Bank Deposits**

**Finding:** The Center had bank deposits of \$1,244,977 that were uninsured and uncollateralized.

**Recommendation:** We recommend that the Center's bank deposits be insured or collateralized.

Some of the funding agencies of the Center have asked us to review the following items:

1. Review the allocation of personnel costs, supplies and administrative costs to verify that it is reasonable and consistent with prior years. This allocation appeared to be reasonable and consistent with prior years.
2. Review the allocation substance abuse costs including personnel costs, supplies and administrative costs between treatment and prevention. This allocation appeared to be reasonable and consistent with prior years.

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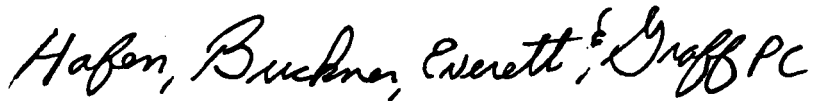
3. Review related parties and conflict of interest of board members and management. Nothing came to our attention that appeared to be improper.
4. Review all compensation and reimbursements of management. Nothing came to our attention that appeared to be improper.
5. Are all required policies in place and operating? The required policies appeared to be in place and operating.
6. Review the timeliness and support of the Center's billings. The Center's billing appeared to be submitted on a timely basis and supported by sufficient costs.

It is important to recognize that a letter of this type is intended to be constructive in nature, and that the absence of positive or complimentary comments is not intended to imply that the operation is not efficient or sound.

Because the above comments are not based on a special study of matters covered, further evaluation of our suggestions may be necessary on your part as a basis for implementation.

We appreciate the help and cooperation provided by the Center personnel during the course of our audit. We would be pleased to discuss these matters with you further at your convenience.

Yours truly,



HAFEN, BUCKNER, EVERETT & GRAFF, PC

December 16, 2005

Board of Directors  
Southwest Behavioral Health Center

We welcome the opportunity to work with an independent accounting firm each year to not only produce the annual financial statements, but to also reassess our system of internal management controls. We appreciate the professionalism and cooperation exhibited by the firm of Hafen, Buckner, Everett & Graff in performing their audit work for the fiscal year 2005, and offer the following responses to the findings and recommendations included in their management letter dated November 30, 2005,

#### **Fund Balance**

**Finding:** Utah State Law provides that the maximum unreserved fund balance should not exceed 25 percent of the current year revenues. At June 30, 2005, the Center's unreserved fund balance was \$4,009,544 which was \$918,499 more than the maximum fund balance allowed by state law.

**Recommendation:** We recommend that the Center comply with the state requirement by reserving additional funds identified for capital needs or operational requirements.

**Center Response:** *Utah State Law provides that in the instance where the accumulation of fund balance exceeds 25 percent of total general fund revenues, the excess fund balance shall be appropriated (budgeted and expended). The law also provides that the excess may be placed in a reserve for future capital project needs. We will evaluate the Center's capital project plans and current operational requirements and present recommendations to the Board to address the excess fund balance that existed as of June 30, 2005.*

#### **Budget**

**Finding:** For the year ended June 30, 2005 the Center's expenditures exceeded the amount appropriated in the final adopted budget which is a violation of state law. This appeared to be due to not including the specific board approval of significant capital outlay in the revised budget.

**Recommendation:** We recommend that the Center's expenditures not exceed the amount appropriated in the final adopted budget.

Center Response: *We agree with the finding and recommendation. As noted, the capital expenditure in question was specifically approved by the Board, but was not included in a formal budget revision at the time of approval or in subsequent Board approved budget revisions. In the future, we will insure that necessary budget revisions are submitted to the Board in a timely fashion.*

## **DEPOSITS**

Finding: There were a few instances of not depositing monies within three banking days as required by state law.

Recommendation: We recommend that management reemphasize this requirement with each of the responsible employees at each location.

Center Response: *We agree with the finding and recommendation, and will periodically remind responsible staff of this requirement.*

## **Credit Cards:**

Finding: It came to our attention during the audit that there was a credit card in both the Center and the employee's name that was being used by the employee to purchase personal items for which the employee then reimbursed the Center. The statement for this credit card was mailed by the credit card company to the employee who then brought it to the Center for payment. We understand that the employee no longer has this credit card.

Recommendation: We recommend that the Center establish a policy prohibiting the use of any credit card in the Center's name for employee personal purchases. We further recommend that the statements be mailed directly to the Center's accounts payable department.

Center Response: *We agree with the finding and recommendation, and will develop a policy to specifically address the issues mentioned.*

## **Bank Deposits**

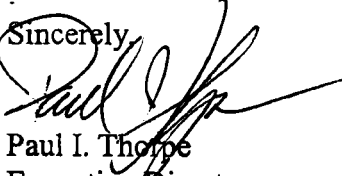
Finding: The Center had bank deposits of \$1,244,977 that were uninsured and uncollateralized.

Recommendation: Although not specifically required under State statutes, we recommend that the Center's bank deposits be insured or collateralized.

Center Response: *We agree with the finding that on the specific date of June 30, 2005, the Center had a cash deposit balance of \$1.2 million that was uninsured and uncollateralized. We make every attempt to minimize our local cash balances because it would be very cumbersome or costly to insure or collateralize large balances on an ongoing basis. In this case, June 30 happened to fall on a Thursday before a Friday payday, in conjunction with an unusually large amount of weekly vendor payments, necessitating an abnormally large cash balance for a very short period of time. We will continue to manage the Center's cash so as to minimize any banking risk, while at the same time providing adequate liquidity and maximizing investment returns.*

Again, we welcome the annual assessment of our internal management control system, and are gratified that the auditor's findings were largely complimentary of that system. Should you have any questions or concerns regarding our proposed plans to address the management letter recommendations, we would be happy to discuss them further with you.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul I. Thorpe", with a stylized flourish extending from the end.

Paul I. Thorpe  
Executive Director